MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022 (2135)

BFN2224 – FINANCIAL MARKETS AND INSTITUTIONS

(All sections / Groups)

3RD OCTOBER 2022
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages (including cover page) with 3 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the answer booklet.

QUESTION 1 (50 MARKS)

DHAKA, June 30 (Reuters) - Bangladesh's central bank raised its key interest rates by half a percentage point on Thursday, its second hike in a month, as it battles stubbornly high inflation. The central bank said it had raised the repo rate, which it uses to inject money into the banking system, by 50 basis points to 5.50% to deal with demand side pressures and to ensure the flow of funds to priority and productive sectors.

The move came after the south Asian country's annual inflation hit an 8-year high in May. The central bank last raised the key interest rate by 25 basis points on May 29. The bank said it would continue its support to implement the government's ongoing 2 trillion-taka ($21.40 billion) stimulus packages alongside its own refinance schemes in the face of new adversities, including the Russia-Ukraine war and the COVID-19 pandemic. The central bank also raised the private sector credit growth target to 14.1% for the 2022/23 financial year that starts on July 1 from 13.1% in the current financial year. It said it would introduce a new refinance line of credit for import-substituting products to minimise import dependency and save valuable foreign exchange reserves.

Bangladesh's foreign exchange reserves fell to $41.9 billion as of June 28 from $46.4 billion at the end of June 2021, the central bank said. With reserves dwindling, the government has taken a series of measures including curbing non-essential imports, relaxing rules to attract remittances from millions of migrants living overseas and restraining foreign trips of its officials. Bangladesh aims to boost economic growth to 7.50% for the 2022/23 financial year from 7.25% in 2021/22 on the back of garment exports and remittances from Bangladeshis working overseas.

The central bank, however, said deadly flooding this month and a prolonged Russia-Ukraine war could hold back growth.

Note: $1 = 93.4500 taka

Source: The Thomson Reuters

Based on the above article, please answer the following questions.

a) Briefly discuss **FOUR (4)** strategies applied by the Bangladesh's Central Bank to curb the country's high inflation.

(26 marks)

b) Explain the impact of these strategies to the public and financial institutions of the country.

(24 marks)

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QUESTION 2 (25 MARKS)

a) Abrar SRC International Berhad issued 7,300,000 new shares in the Initial Public Offering (IPO). The initial price to the public was RM12.00 per share, however, the first-day closing price was RM32.

(i) If the underwriters retained RM2.50 per share as fees, what was the net proceeds to Abrar SRC International Berhad? What was the market capitalization of new shares of Abrar SRC International Berhad?
(7 marks)

(ii) Compute the underpricing and money left on the table for Abrar SRC International Berhad. What does this suggest about the efficiency of the IPO process?
(8 marks)

b) The interbank market is an informal market where banks borrow from and lend to each other with established internal limits based on an institution's risk. Why do banks borrow in the interbank market?
(10 marks)

QUESTION 3 (25 MARKS)

a) Briefly identify and explain **FOUR (4)** major factors that influence exchange rates in the financial market.
(16 marks)

b) Explain the purpose of the government and corporate bonds' issuance to public.
(9 marks)

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